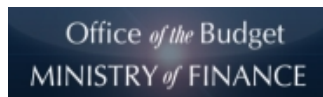


2017 Document: Fiscal Plan Context



Cabinet Retreat, February 24, 2016

Preliminary Draft (All numbers to be confirmed) – February 13, 2017 10:15 PM

Purpose

- Outline the **frame, priorities, and approach** to the 2017 Document.
- Review the **current fiscal challenge** in light of government's **fiscal anchors**.
- Outline the **potential tools** that could support key investments and achievement of the government's fiscal objectives.

2017 Document – Framing and Anchoring

Framing the Balance of Choices for the 2017 Document

Build on Government's Plan, Demonstrate Progress, and Provide a Vision for Tomorrow

- Show progress on the government's plan to **invest in the economy and build Ontario up for everyone**.
- Demonstrate **responsible fiscal management**.
- Continue to **transform** and protect public services for longer term sustainability.

Confirm Recent Investments, Launch New Supporting Priority Investments

- Point to **2016 Budget investments**, as well as important **additional commitments** made in the 2016-17 year that demonstrate progress.
- Launch **select new priority investments** that create jobs and grow the economy of tomorrow.

Maintain Fiscal Credibility

- Continue to beat **deficit targets** and return the Province to **balanced budgets**.
- Moving forward, ensuring a **fiscally sustainable** and credible plan.



Reconciling and Balancing the Approach

- **Reconciling the government's fiscal anchors**, such as balancing the budget in 2017-18 and ongoing, **with the commitment to invest in priorities**, such as **additional electricity relief**, will require **trade-offs**.
- This means the scope, size and roll-out of new priority investments **may require the consideration of all viable revenue tools and other measures** in the lead-up to the 2017 Document.
- Need to maintain a longer-term view to the **2018 Document, Pre-Election Report** and beyond.

Evolution of the Fiscal Plan and Current Challenge

Key Revenue and Expense Changes Since 2016 Budget

Since the 2016 Budget, a number of key revenue and expense changes have impacted the fiscal outlook, including:

Revenue

- Higher than forecasted taxation revenue.
- Lower projected equalization revenues.
- Lower Cap and Trade proceeds projection.
- IFRS accounting impact from the consolidation of OPG and Hydro One of up to \$0.7 billion by 2019-20.
- Re-profiling the sale of the final tranche of Hydro One from 2018-19 to 2017-18.

Expense

- Combined Pension Adjustment for HOOPP and CAATPP of up to \$0.8 billion by 2019-20.
- In year approvals of up to \$2.7 billion by 2019-20.
- Additional Electricity Cost Relief of up to \$0.8 billion by 2019-20.
- Constrained PRRT submissions above allocation of up to \$1.3 billion by 2019-20.
- Constrained Scalable Priority Initiatives of up to \$1.6 billion by 2019-20.

Prudence

Prudence has been reduced since the 2016 Budget, resulting in remaining balances of:

- **Contingency funds:** \$X.X billion in 2017-18, \$X.X billion in 2018-19, and \$X.X billion in 2019-20.
- **Reserve:** \$0.7 billion in 2017-18, \$0.8 billion in 2018-19, and \$1.0 billion in 2019-20.

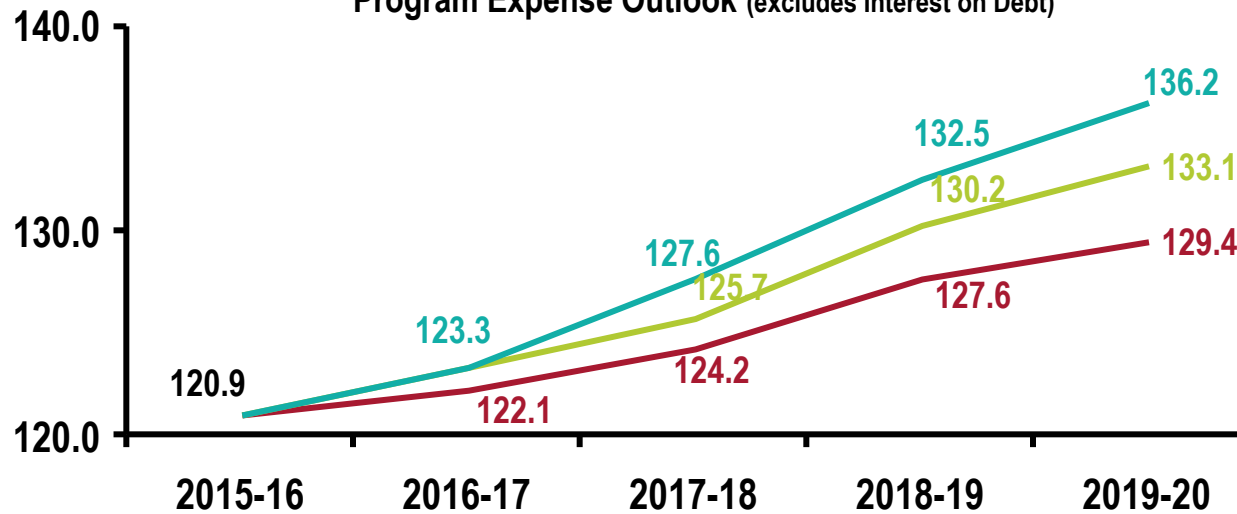
Year-End Saving Target

- **Year-end savings targets:** \$1.2 billion in 2017-18, \$1.2 billion in 2018-19, and \$1.3 billion in 2019-20.
- An **additional \$0.5 billion** savings target is being considered for 2018-19 and 2019-20.

Fiscal Context – 2016 Budget to Current

\$ Billions

Program Expense Outlook (excludes Interest on Debt)



Additional Investments

(Includes Constrained Scalable
+ Constrained Above-Allocation PRRT
+ Additional Electricity Price Relief
+ \$0.5 billion Savings Target)
3.4% Avg. Growth
2016-17 to 2019-20

Preliminary Allocations & In-year Approvals

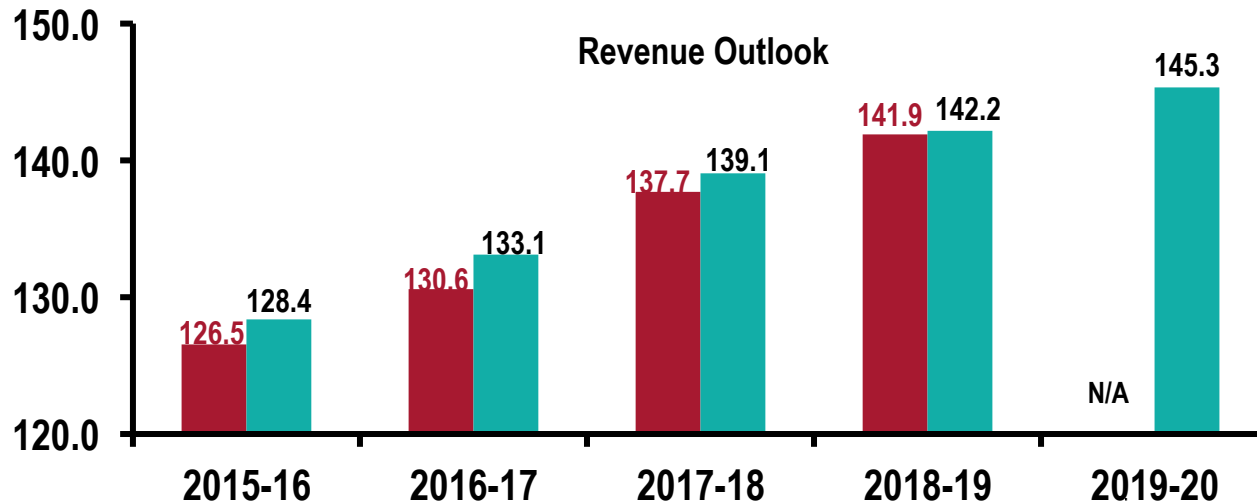
2.6% Avg. Growth
2016-17 to 2019-20

2016 Budget Outlook

1.9% Avg. Growth
2014-15 Actual to 2018-19
(as published in 2016 Budget)

Interest on Debt	11.0	11.3	11.7	12.4	12.6
Reserve	-	0.4	0.7	0.8	1.0

Revenue Outlook



Current Planning Outlook

3.0% Avg. Growth
2016-17 to 2019-20

2016 Budget Outlook

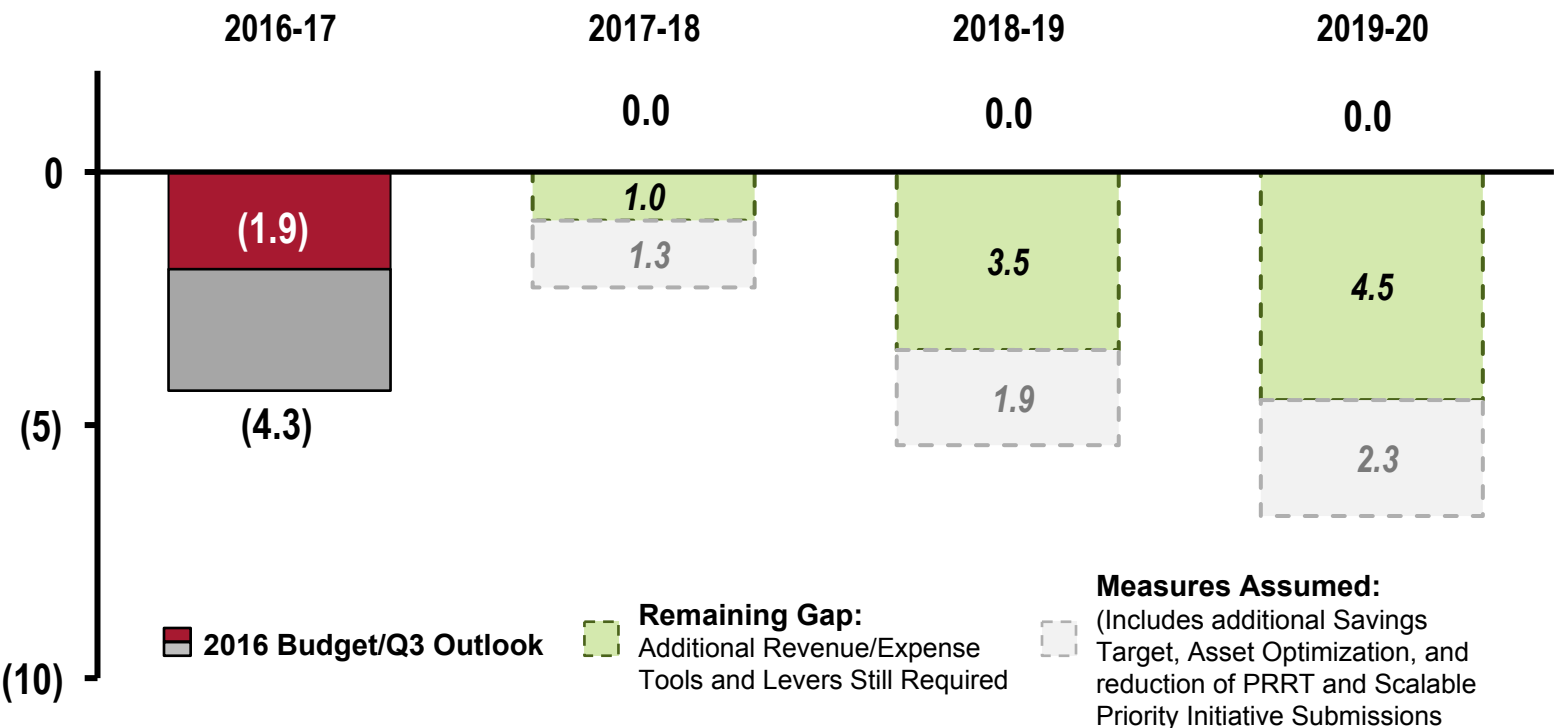
3.9% Avg. Growth
2015-16 to 2018-19
(as published in 2016 Budget)

Assessing and Addressing the Fiscal Challenge

Some measures have already been identified to help close the gap: scaling back PRRT requests and scalable initiatives; introducing additional savings targets of \$0.5 billion in 2018-19 and 2019-20 and advancing the sale of the final tranche of Hydro One shares from 2018-19 to 2017-18.

Without additional effort, the fiscal gap is **\$1.0 billion in 2017-18, \$3.5 billion in 2018-19, and \$4.5 billion in 2019-20.**

Continuing to assume fiscal anchors of **balanced budgets** over the forecast horizon **will require identifying additional revenue or expense tools/levers** to address the fiscal challenge.



Other Factors That Could Further Impact the Gap

Revenue

- Revisions to economic outlook
- Potential revisions to cap-and-trade proceeds based on auction results in 2017.
- Adjustments to the government's asset optimization strategy
- Remaining 2015 CIT & PIT tax assessment information and ongoing tax receipts from provincially administered taxes
- PRRT updates (revised revenue outlooks from ministries, agencies and government business enterprises)
- Implications of Federal Budget

Expense

- 2017 Document initiatives
- Labour settlements
- Interest on debt forecast updates
- Alignment of climate change investments with available proceeds
- Impact of expense pressures that ministries have been asked to manage

Accounting risks:

- Treatment of Pension Assets (plus any valuation impacts)
- Further updates to accounting Framework for OPG and Hydro One (IFRS)

Prudence

- Build the reserve back up to mitigate adverse impacts to the fiscal plan
- Resetting the contingency funds to accommodate expense risks and pressures

- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

Approaches to Closing the Gap

Potential Tools to Achieve Fiscal Targets

There are a number of revenue and expense measures that could be considered to achieve fiscal targets.

Additional Revenue Measures	Federal Revenue Strategy
- Determine the scope for revenue tools, including: - Targeted Tax Changes - Non-tax revenue - Federal tax measures	- Engagement strategy with the federal government to maximize new federal funding, including: - Equalization Protection - Funding for climate change initiatives - Infrastructure* - Health funding*
Additional Expense Measures	Prudence
- Determine the scope for expense measures, including: - Undertaking additional transformative initiatives - Revisiting in year approvals - Timing/scaling mandate letter commitments* - Additional savings targets* - Program Review - Further Interest on Debt Savings*	- What is the appropriate level of prudence to build into the fiscal plan? - Further reductions to the reserve* or Contingency Fund*, or - Pushing the revenue forecast or interest on debt forecast beyond current expectations, increases vulnerability to future downward forecast revisions

* Indicates tool that is already built into planning assumptions -- limiting potential additional fiscal effort from these tools.

Expense Tools: Program Reviews with Savings Targets

- Initiate a **systematic program review** process with the goal of identifying savings that would materialize beginning in 2018-19.
- **Buy-in from the Cabinet and ministries** is an essential condition for the program review process to meet its objectives.
- If approved, the program review process would be **launched in Spring 2017** and include:
 - Developing **savings targets for ministries** taking into account the overall allocation of ministries, current mandate commitments and non-discretionary pressures.
 - Ministries would be asked to propose plans to **implement savings targets** that avoid across-the-board reductions. Instead, the savings plans to be **informed by evidence** of effectiveness of programs and focus on PRRT principles (relevance, effectiveness, efficiency and sustainability of programs)
 - Where services are offered by multiple ministries, **costing reviews involving multiple ministries** can be initiated to identify the most effective mode of delivery. External support would be provided, as necessary, to maximize impact and outcomes.
 - **PRRT Sub-Committee** can be used to provide oversight and direction to ministries in the development phase.
 - Ministries would be asked to report back in the **2018-19 PRRT** for approval of their plans.

Illustrative Impact of Tools on Program Expense

\$ Billions	Actual 2015-16	2016-17	2017-18	2018-19	2019-20	Avg. Ann. Growth 2016-17 to 2019-20	Avg. Ann. Growth 2015-16 to 2019-20
2016 Budget (as published)	120.9	122.1	124.2	127.6	N/A	1.9%	1.9%*
<i>Year-over-year growth</i>		1.0%	1.7%	2.8%			
Subtotal with In-Year Approvals and Prelim. Allocations	120.9	123.3	125.7	130.2	133.1	2.6%	2.4%
<i>Year-over-year growth</i>		1.9%	1.9%	3.6%	2.2%		
Subtotal with Full PRRT & Scalable Priority Submissions	120.9	123.3	128.0	133.6	137.8	3.8%	3.3%
<i>Year-over-year growth</i>		1.9%	3.9%	4.4%	3.1%		
Subtotal with Revised Requests + Electricity + \$0.5 billion Savings Target	120.9	123.3	127.6	132.5	136.2	3.4%	3.0%
<i>Year-over-year growth</i>		1.9%	3.5%	3.8%	2.8%		
Constrained Program Expense Outlook to Balance (assumes additional revenue tool of ~\$1 billion)	120.9	123.3	127.6	130.0	132.7	2.5%	2.4%
<i>Year-over-year growth</i>		1.9%	3.5%	1.8%	2.1%		
<i>Constrained Program Expense could be composed of:</i>							
Health Sector Expense Growing at 3%	51.1	52.1	53.7	55.3	57.0	3.0%	2.8%
<i>Year-over-year growth</i>		2.1%	3.0%	3.0%	3.0%		
All Other Expense	69.9	71.1	73.9	74.6	75.8	2.1%	2.0%
<i>Year-over-year growth</i>		1.8%	3.9%	1.0%	1.5%		

*Reflects published average annual growth between 2014-15 actual and 2018-19 budget plan.

Key Takeaways

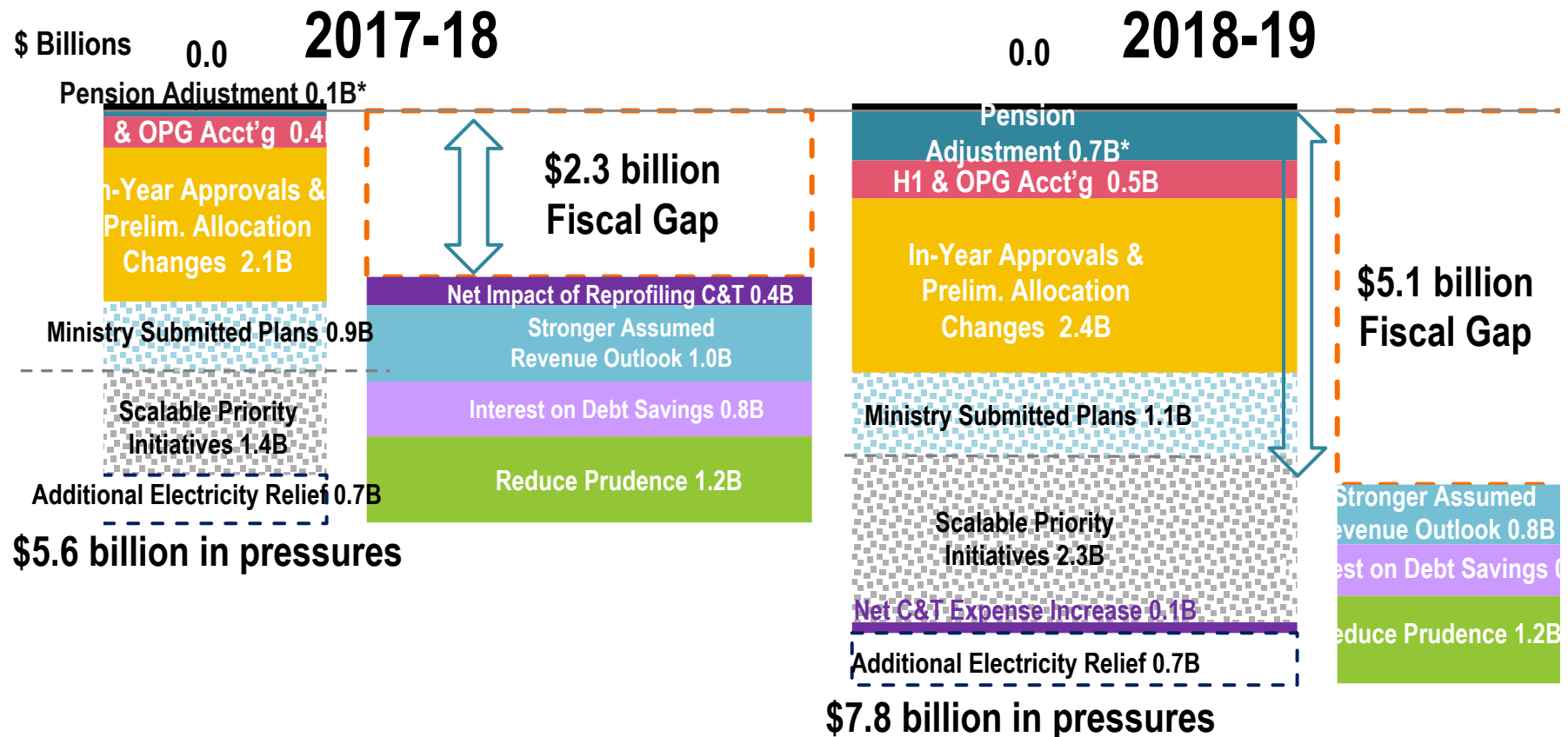
- The **2017 Document** approach will need to **reconcile** the commitment to **balance** with the desire to make **investments in priority areas**
- **Achieving fiscal objectives** while investing in new priorities will **require** the consideration of all **viable revenue and expense tools**
 - Success of a **Program Review** exercise will require the buy-in and **commitment of all Cabinet** members to constrain program spending
- Regardless of tools taken on, **not all priorities can be funded** as part of the **2017 Document** – this will require **choices and trade-offs** about what to **fund now** and what can be considered as part of the 2018 Document.

Appendix

The Fiscal Challenge

While the 2016 Budget outlined a plan to balance the budget in 2017-18 and remain balanced in 2018-19, **changes since the Budget have created a gap compared to the government's fiscal targets.**

- A stronger outlook for revenue and lower interest on debt expense are currently tracking against the Budget forecast – **however, spending pressures, new strategic investments, and the pension adjustment also materialized** – creating a fiscal gap.
- In order to accommodate fiscal pressures in 2017-18 and 2018-19, tools were taken on in the 2016 FES and the 2016 Budget. The remaining fiscal gap will need to be addressed through additional tools.



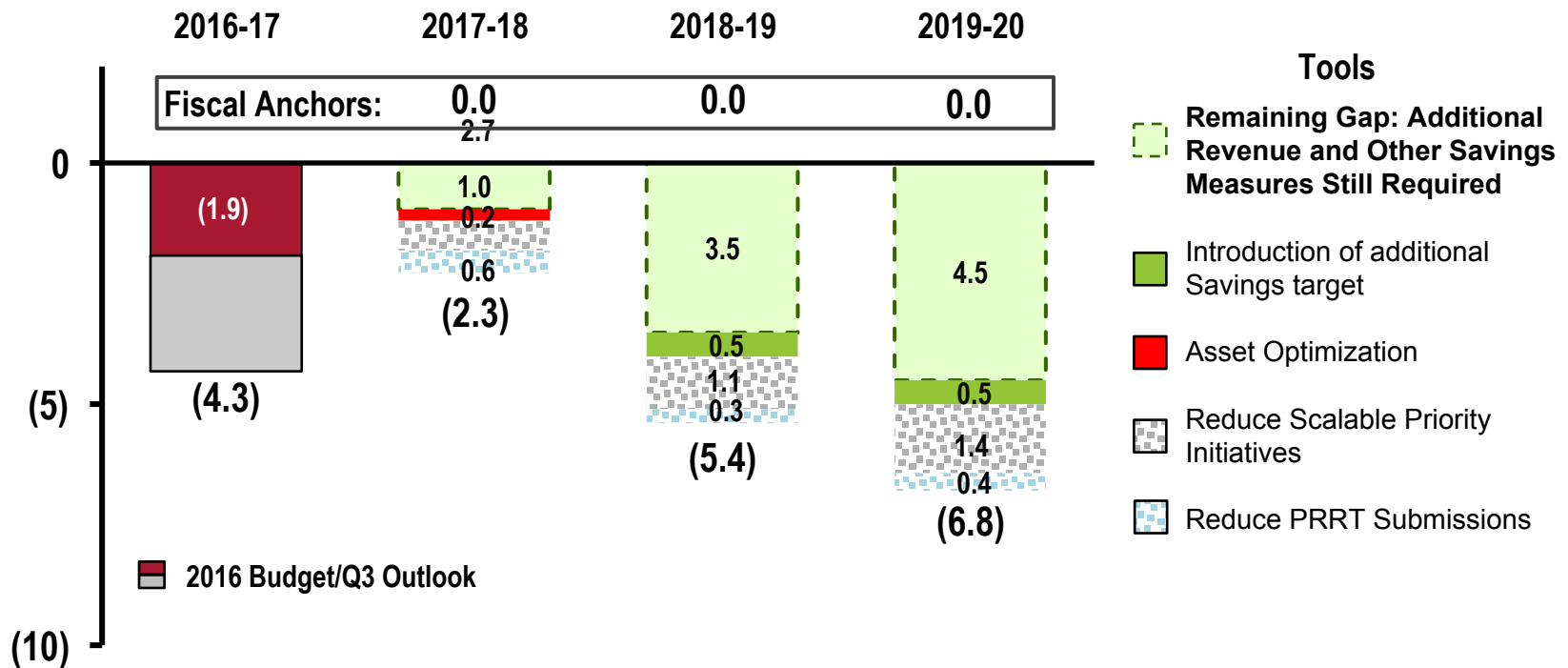
* Includes the combined Pension Adjustment for HOOPP and CAATPP only.

Note: The asset optimization tool assumed elsewhere in this presentation increases the 2018-19 gap from \$5.1 billion to \$5.4 billion { # }

Assessing the Fiscal Challenge – Closing the Gap

Some measures have already been identified to help close the gap – including scaling back PRRT requests and scalable initiatives, and higher savings targets.

However, **continuing to assume fiscal anchors of balanced budgets** over the forecast horizon **means a limited envelope for additional new investments, and the need to identify additional tools and levers.**



Note: Due to the asset optimization tool assumed in 2017-18, the 2018-19 gap increases from \$5.1 billion to \$5.4 billion